

STATE INVESTMENT BOARD  
MINUTES OF THE  
APRIL 21, 2006, BOARD MEETING

BOARD MEMBERS PRESENT: Howard Sage, Vice Chair  
Sandy Blunt, Workforce Safety & Insurance  
Clarence Corneil, TFFR Board  
Barb Evanson, TFFR Board  
Ron Leingang, PERS Board  
Jim Poolman, Insurance Commissioner  
Gary Preszler, Land Commissioner  
Rosey Sand, PERS Board  
Mark Sanford, TFFR Board (Via teleconference)  
Kelly Schmidt, State Treasurer

MEMBERS ABSENT: Lt. Governor Jack Dalrymple

STAFF PRESENT: Steve Cochrane, Executive Director  
Fay Kopp, Deputy Executive Director  
Connie Flanagan, Fiscal & Investment Officer  
Susan Gefroh, Investment Accountant  
Bonnie Heit, Office Manager  
Les Mason, Supervisor Internal Audit

OTHERS PRESENT: Weldee Baetsch, former SIB trustee  
Paul Erlendson, Callan Associates, Inc.  
Bill Kalanek, AFPE/NDRTA  
Chuck Martin, State Street Global Advisors  
Scott Miller, Attorney General's Office  
Bryan Reinhardt, PERS  
David Sandy, Workforce Safety & Insurance  
Tobias Seggerman, State Street Global Advisors

CALL TO ORDER:

Mr. Howard Sage, Vice Chair of the State Investment Board (SIB), called the meeting to order at 8:35 a.m. on Friday, April 21, 2006, at the State Capitol, Ft. Union Room, Bismarck, ND.

THE FOLLOWING MEMBERS WERE PRESENT REPRESENTING A QUORUM: MR. BLUNT, MRS. EVANSON, MR. LEINGANG, MR. SAGE, TREASURER SCHMIDT, COMMISSIONER POOLMAN, COMMISSIONER PRESZLER, MS. SAND, AND MR. CORNEIL.

ABSENT: DR. SANFORD, LT. GOVERNOR DALRYMPLE

MINUTES:

The Board considered the minutes of the March 17, 2006, meeting,

TREASURER SCHMIDT MOVED AND COMMISSIONER POOLMAN SECONDED TO APPROVE THE MARCH 17, 2006, MEETING.

AYES: COMMISSIONER POOLMAN, MR. BLUNT, COMMISSIONER PRESZLER, MRS. EVANSON, MR. LEINGANG, MR. SAGE, MS. SAND, TREASURER SCHMIDT, AND MR. CORNEIL  
 NAYS: NONE

MOTION CARRIED

ABSENT: DR. SANFORD, LT. GOVERNOR DALRYMPLE

#### BOARD EDUCATION:

State Street Global Advisor's representatives, Mr. Toby Seggerman and Mr. Chuck Martin, reviewed State Street's 130% long/30% short enhanced large cap domestic equity product.

A copy of their presentation is on file at the Retirement and Investment Office (RIO).

#### GOVERNANCE:

##### INVESTMENTS

Work on Domestic Large Cap Equity - Mr. Steve Cochrane, Executive Director, reviewed State Street's 130/30 short enhanced large cap domestic equity product and how implementation of this product could upgrade the current index assignment within the Pension and Insurance Trusts. He recommended the Board approve implementing the upgrade.

MR. BLUNT MOVED AND MR. CORNEIL SECONDED TO ALLOW STATE STREET TO UTILIZE THE ENHANCED EQUITY PLUS STRATEGY ON THE ASSETS CURRENTLY HOUSED IN AN INDEX ACCOUNT CONTINGENT UPON SUCCESSFUL FEE NEGOTIATIONS FOR ALL FUNDS. A ROLL CALL VOTE WAS TAKEN AS FOLLOWS:

AYES: MR. BLUNT, TREASURER SCHMIDT, DR. SANFORD, MRS. EVANSON, COMMISSIONER PRESZLER, MR. LEINGANG, COMMISSIONER POOLMAN, MR. CORNEIL, MR. SAGE, AND MS. SAND  
 NAYS: NONE

MOTION CARRIED.

ABSENT: LT. GOVERNOR DALRYMPLE

The Board recessed at 10:00 a.m. and reconvened at 10:10 a.m.

RMK/TIR Timber Management - Mr. Cochrane discussed the recent meeting which took place between RMK, RIO staff, Mr. Paul Erlendson, and SIB members, Treasurer Kelly Schmidt and Mr. Sandy Blunt. He explained that given the real time observations of both timber managers running in parallel, it has become apparent that our interests would be best served by consolidating management with one firm, TIR. All those who had attended the previously referenced meeting agreed and shared their specific insights. Following discussion,

TREASURER SCHMIDT MOVED AND MR. BLUNT SECONDED TO TERMINATE THE SIB'S RELATIONSHIP WITH RMK AND TRANSFER THE TEREDO PROPERTIES TO TIMBERLAND INVESTMENT RESOURCES (TIR). A ROLL CALL VOTE WAS TAKEN AS FOLLOWS:

AYES: TREASURER SCHMIDT, MR. BLUNT, MR. LEINGANG, MS. SAND, MRS. EVANSON, MR. CORNEIL, COMMISSIONER POOLMAN, COMMISSIONER PRESZLER, MR. SAGE  
 NAYS: NONE

MOTION CARRIED.

ABSENT: LT. GOVERNOR DALRYMPLE, DR. SANFORD

#### ADMINISTRATION

City Of Bismarck - Mrs. Connie Flanagan, Fiscal & Investment Officer, presented revised investment guidelines for the City of Bismarck Employees and Police. The City had recently completed an actuarial audit and asset liability and experience study thus the reason for the revised versions.

COMMISSIONER POOLMAN MOVED AND MR. CORNEIL SECONDED TO APPROVE THE CITY OF BISMARCK EMPLOYEES AND POLICE INVESTMENT GUIDELINES. A ROLL CALL VOTE WAS TAKEN AS FOLLOWS:

AYES: MS. SAND, MR. SAGE, MR. CORNEIL, MRS. EVANSON, TREASURER SCHMIDT, COMMISSIONER POOLMAN, MR. BLUNT, COMMISSIONER PRESZLER, AND MR. LEINGANG  
 NAYS: NONE

MOTION CARRIED.

ABSENT: LT. GOVERNOR DALRYMPLE, DR. SANFORD

Legal/Legislative - Mr. Cochrane presented a legislative bill draft that would amend and reenact section 21-10-02 of the North Dakota Century Code, relating to the investment powers of the SIB. The following language would be inserted in section 21-10-02: The board may grant a security interest in securities held by the board on behalf of the various funds to third parties if necessary to comply with federal law.

Mr. Cochrane explained that the language as currently proposed is not optimal, but that revisions would be submitted over the course of bill study.

COMMISSIONER POOLMAN MOVED AND TREASURER SCHMIDT SECONDED TO ACCEPT THE LEGISLATIVE LANGUAGE CHANGE.

AYES: MR. LEINGANG, MS. SAND, MR. CORNEIL, MRS. EVANSON, MR. SAGE, MR. BLUNT, COMMISSIONER POOLMAN, COMMISSIONER PRESZLER, AND TREASURER SCHMIDT  
 NAYS: NONE

MOTION CARRIED.

ABSENT: LT. GOVERNOR DALRYMPLE, DR. SANFORD

Workplan Update - For informational purposes, Mr. Cochrane presented a revised workplan to the Board.

COMMISSIONER POOLMAN MOVED AND MR. LEINGANG SECONDED TO APPROVE THE REVISED WORKPLAN AS PRESENTED.

AYES: MR. SAGE, TREASURER SCHMIDT, MR. CORNEIL, COMMISSIONER PRESZLER, MS. SAND, COMMISSIONER POOLMAN, MRS. EVANSON, MR. LEINGANG, AND MR. BLUNT  
 NAYS: NONE

MOTION CARRIED.

ABSENT: LT. GOVERNOR DALRYMPLE, DR. MARK SANFORD

CEO/CIO Compensation Study by Hay Group - Mr. Cochrane updated the Board on contracting with the Hay Group. He has been in contact with the Hay Group and the individual who will actually be performing the analysis. This individual will provide a cost to Mr. Cochrane and if the Board concurs, this individual will be present at the June 16, 2006 board meeting to present his findings/recommendations.

MONITORING:

Included in the board member's packets were the following quarterly monitoring reports: Executive Limitations/Staff Relations, Investment Program, Retirement Program, and Budget/Financial Conditions.

TREASURER SCHMIDT MOVED AND MR. BLUNT SECONDED TO APPROVE THE QUARTERLY MONITORING REPORTS AS SUBMITTED.

AYES: MR. BLUNT, COMMISSIONER POOLMAN, TREASURER SCHMIDT, COMMISSIONER PRESZLER, MR. SAGE, MS. SAND, MR. LEINGANG, MR. CORNEIL, AND MRS. EVANSON

NAYS: NONE

MOTION CARRIED.

ABSENT: LT. GOVERNOR DALRYMPLE, DR. SANFORD

OTHER:

Mr. Cochrane informed the Board Mr. Greg Allen, Callan Associates, Inc., informed him that he has reached the threshold of \$800 million for funding their small cap product. At the July 15, 2005 board meeting the Board approved committing \$100 million to the Callan Diversified Alpha Group Trust contingent upon Callan achieving \$900 million in commitments from other entities. Mr. Cochrane stated Callan has a firm commitment of \$800 million from the Utah Retirement System which is scheduled to be invested May 1, 2006. An additional \$25 million from Hallmark Corporation and \$200 million from Boeing will follow. Mr. Cochrane requested authorization to invest the \$100 million on May 1, 2006 because of cost savings that would be achieved rather than wait until the \$900 million is actually received and invested.

Mr. Scott Miller, Assistant Attorney General, questioned whether or not the Hallmark and Boeing contributions could participate in 81-100 trusts since the contributions would be considered non-governmental. He would investigate and get back to Mr. Cochrane.

MR. BLUNT MOVED AND TREASURER SCHMIDT SECONDED TO MODIFY THE ORIGINAL PROVISION AND INVEST THE SIB'S \$100 MILLION COMMITMENT AT THE \$800 MILLION THRESHOLD IN ORDER TO ACHIEVE COST SAVINGS CONTINGENT UPON REVIEW OF THE BOEING AND HALLMARK INVESTMENTS QUALIFYING. A ROLL CALL VOTE WAS TAKEN AS FOLLOWS:

AYES: MRS. EVANSON, MR. CORNEIL, MS. SAND, COMMISSIONER POOLMAN, MR. BLUNT, COMMISSIONER PRESZLER, MR. LEINGANG, TREASURER SCHMIDT

NAYS: MR. SAGE

MOTION CARRIED.

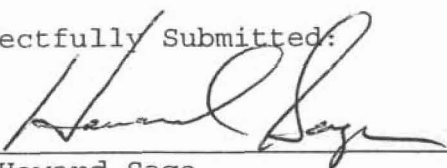
ABSENT: LT. GOVERNOR DALRYMPLE, DR. SANFORD

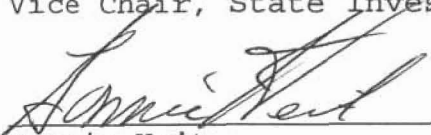
The next meeting of the SIB will be held on Friday, May 19, 2006, at 8:30 a.m., at the State Capitol's Ft. Union Room, Bismarck, ND.

ADJOURNMENT:

With no further business to come before the Board, Mr. Sage adjourned the meeting at 11:05 a.m.

Respectfully Submitted:

  
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Mr. Howard Sage  
Vice Chair, State Investment Board

  
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Bonnie Heit  
Reporting Secretary